



15 January 2009

Mr. Stig Enevoldsen
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Ref.: BAN/HvD/SS/LF/SR

Dear Mr. Enevoldsen,

Re: FEE Comments on EFRAG's Draft Comment Letter on IASB Exposure Draft of proposed amendments to IFRS 7 "Investments in Debt Instruments"

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the EFRAG Draft Comment Letter on the IASB Exposure Draft of proposed amendments to IFRS 7 *Financial Instruments: Disclosures* "Investments in Debt Instruments" (the "ED").
- (2) We appreciate that the IASB has undertaken a series of actions, including the Roundtables in response to the global crisis, following the demand of constituents, notably the European constituents. All parties involved in the standard setting process have learned from recent experiences in amending the international accounting standards.
- (3) We are of the opinion that the IASB should not continue with the proposals included in the ED. Rather the issues should be addressed as part of the broader project on financial instruments which the IASB and FASB hope to complete over the coming months.
- (4) In our view the objective of the ED is not sufficiently clear since:
 - it does not answer the issue relating to impairment of AFS mentioned during the roundtables as it does not permit to show the effect on impairment losses resulting from applying different models of impairment to impaired AFS instruments;
 - it does not illustrate the profit and loss effect and carrying values of all financial assets had all these assets been measured differently, as the ED excludes all financial assets measured at fair value through profit and loss and all related financial liabilities;



- Furthermore, according to the requirement to measure at fair value all debt instruments we question the need to disclose profit and loss information that would aim to reflect something that would be contradictory with the current classification according to IAS 39. In certain cases investments cannot be classified in the amortised cost category (L&R or HTM) since it would not be allowed based on the characteristics of the instrument itself or based on the capacity and intention of the entity. We therefore have difficulties understanding what would be the meaning of information that is not consistent with the basic classification and measurement requirements of IAS 39 and/or the strategy of the entity. Somehow this casts doubt on the appropriateness of such a classification and/or disclosure.
- (5) In general, we support the approach taken by EFRAG in its Draft Comment Letter and support the reasoning provided. It would be helpful were EFRAG's opposition to the ED articulated as clearly as possible in the body of its letter. Therefore, we suggest that EFRAG presents a paragraph summarising the conclusion of its position with respect to the proposals in the letter itself.
- (6) We wish to recall the various reasons why we believe the IASB should not continue with the ED in its current form and pace:
- Objective of the ED is not clear;
 - Pace of the current proposals: is it appropriate to rush through these changes?;
 - Difficulties related to mandatory application for the 2008 financial statements: backdating the effective date;
 - Extension of scope beyond AFS instruments and impairment model for AFS instruments: impairment of debt securities classified as AFS.

It would be helpful if EFRAG could clearly express its position by referring to these elements.

Is it appropriate to rush through these changes?

- (7) We particularly agree with the EFRAG analysis about the purpose of this proposed amendment introducing additional disclosures to provide information on the profit or loss that would have been recorded if all financial assets (other than those categorised at fair value through profit or loss) had been measured using amortised cost (i.e. using an incurred cost model), or all had been measured using fair value. Like EFRAG, we do not believe that the proposed disclosure requirements merit the urgency currently contemplated.
- (8) We note that errors and/or unintended consequences can arise as a result of rushing through proposals and shortening the normal due process. An illustration of this is the issue of the standard by the IASB in October 2008 *Reclassification of Financial Assets* (Amendments to IAS 39 and IFRS 7 *Financial Instruments: Disclosures*) which was issued in response to exceptional circumstances without the normal due process, resulting in the need to subsequently issue an additional Exposure Draft (of proposed amendments to IFRIC 9 and IAS 39 Embedded Derivatives) to prevent a possible unintended consequence of those October 2008 amendments related to the interaction between the amendments and IFRIC 9 as publicly recognised by Sir David Tweedie.



- (9) As indicated in our letter of 17 December 2008 to Sir David Tweedie on the IASB workplan: “Any further amendments to IFRS – resulting from the crisis or otherwise – such as to IAS 39 and IFRS 7 should be given full consideration as to their implications and potential unintended consequences and be subject to an appropriate due process that may be shortened if circumstances so require.” Moreover, an appropriate due process would allow for more extensive consultation of all relevant stakeholders to discuss the practicability of the proposals.
- (10) We share the EFRAG understanding that a number of preparers have asked for urgent changes to be made to the way in which impairments of debt instruments classified as available-for-sale (AFS) are accounted for and requested disaggregated information about impairment losses recognised for AFS debt instruments. We also understand that a number of users have said that, although they would not support the accounting changes requested, it would be useful if the disclosures provided about impaired debt instruments classified as AFS could be enhanced urgently. However, we believe that these specific issues, together with other aspects on impairment of financial instruments, need proper discussion and due process. Moreover the ED is not addressing the effects of related hedges and resulting disclosure implications. Therefore, they merit inclusion in the broader fundamental and comprehensive project on financial instruments of the IASB and FASB.

Backdating the effective date

- (11) We agree that requiring the proposed disclosures to be applied as early as for annual periods ending on 15 December 2008 could result in serious practical difficulties. In particular, we note that many entities and most of the complex groups reporting under IFRS are currently in the middle of the closing process. Some are likely to issue their financial statements on or close after the publication of the amendment in January 2009, in particular those that use a staggered closing process. We note however that it is not required to provide comparative figures.
- (12) Moreover, as far as we are aware, none of the participants in the Roundtable asked for application to the 2008 financial statements. Preparers could provide additional disclosures when they consider such disclosures useful for the market participants.

Question to constituents: In paragraph (b) above we stated that it might not be correct to assume that no new information needs to be gathered to provide the additional disclosures. Do you agree? If so, could you provide examples?

- (13) We agree that it might not be correct to assume that no new information needs to be gathered to provide the additional disclosures proposed. For example the amortised cost measurement is based on an incurred loss model, therefore the impairment for all impaired AFS debt securities would need to be recalculated for this disclosure. We are aware that some banks have already indicated that it would not be possible to obtain the information if required for the year-end 2008.



Impairment of debt securities classified as AFS

- (14) We agree with EFRAG that, given the complexity of, for example, issues arising in the context of the impairment model to be applied to AFS debt instruments, any proposals for changes should be considered as part of the more extensive review of aspects of IAS 39 to take place later this year. To decide on this specific matter in isolation could prejudice the final outcome of this major project.

Question for constituents: We are therefore inclined to the view that the IASB should undertake further analysis and consideration before bringing forward even disclosure proposals in this area. In normal circumstances we would wish to consult informally but widely on this issue before expressing such a view even in a draft comment line but, because of the timetable involved, this has not been possible so we would welcome your views on whether there is any merit in limiting the scope of the ED's proposed disclosures just to debt securities classified as AFS and treated under IAS 39 as impaired. Our concern is that there are too many issues to be addressed to ensure that the recognition and measurement of impairments is appropriate for it to be possible to improve the quality of the information provided through disclosure. Behind this is a concern that we cannot keep adding disclosure requirements in the hope that the disclosures will be useful to someone; we should be sure the disclosures will really shed new insights or enhance the usefulness of the other information provided. We would therefore welcome your views on whether there is any merit in limiting the scope of the ED's proposed disclosures just to debt securities classified as AFS and treated under IAS 39 as impaired.

- (15) We would not change our views on the proposals if the scope of the ED was limited. We share EFRAG's view that the IASB should undertake further analysis and consideration before bringing forward even disclosure proposals in this area. We agree with EFRAG that there are too many issues to be addressed to ensure that the recognition and measurement of impairments is appropriate which cannot be met solely by improving the quality of the information provided through disclosure.
- (16) In conclusion:
- a. We agree with EFRAG that the proposals in the ED are not sufficiently urgent to justify this very short lead time and impractical implementation regime and would advise IASB not to continue with the ED in its current form and pace;
 - b. We recommend that the proposals and questions raised be evaluated together with the proposed 2009 review of the IAS 39 debt instruments impairment model as outlined in the letter of Sir David Tweedie to the European Commission of 17 December 2008;



- c. If despite the issues raised the IASB decides to go forward with the amendment, we also agree with EFRAG and strongly believe that it should not make it obligatory for application to 2008 year ends;
- d. Like EFRAG, we have not answered the questions in the Invitation to comment of the ED mainly as a result of the very short comment period involved and our general conclusions on the ED.

For further information on this letter, please contact Ms Saskia Slomp from the FEE Secretariat.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President